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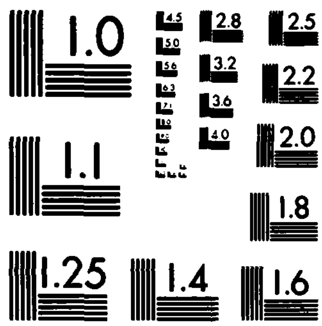

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BY THE COMPTROLLER GENERAL

Report To The Chairman, Committee On Labor And Human Resources

OF THE UNITED STATES

Financial Management Problems At The Equal Employment Opportunity Commission

Although the Equal Employment Opportunity Commission has agreed to correct past deficiencies in its accounting operation, many serious deficiencies still exist that are adversely affecting the agency's ability to control appropriated money. This interim report discusses the deficiencies, which contribute to such things as unreliable accounting records and ineffective efforts to collect debts and pay bills.

UNITED STATES GENERAL ACCOUNTING OFFICE

AFMD-82-17
OCTOBER 30, 1981

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-205343

The Honorable Orrin G. Hatch
Chairman, Committee on Labor and
Human Resources
United States Senate

Dear Mr. Chairman:

In your July 20, 1981, letter, you asked us to review the financial operations of the Equal Employment Opportunity Commission (EEOC) with emphasis on determining the extent of deficiencies in the agency's accounting controls over money appropriated by the Congress. This interim report, requested by your office, provides details on the conditions we have noted to date in the agency's accounting system.

We have established that the accounting system includes the design features necessary to effectively control and account for funds. However, the system has not been properly maintained and operated as designed. As a result, the following problems exist and preclude effective financial management at EEOC.

--Accounting records and reports are unreliable: (1) many transactions have gone unrecorded for extended periods or were not recorded against the proper fiscal year appropriation, (2) many transactions rejected by computer edits have not been processed and recorded when appropriate, and (3) unsupported and otherwise improper adjustments have been made to correct yearend balances.

--Fund controls are inadequate: (1) obligation balances on records have not been properly reconciled and differences appropriately resolved and (2) unliquidated obligations have not been validated since 1978.

--Receivables and payables are mismanaged: (1) necessary documents have frequently not been provided to support bill payments with the result that cash discounts are being lost and the reasonableness of payments is not being reviewed, (2) procedures have not been established to identify and collect debts owed to the agency, and (3) aggressive action has not been taken to settle or collect a large number of travel advances outstanding for an excessive period.

--Internal controls are weak: (1) duties have not been properly separated to provide necessary checks and balances,

(2) accounting personnel have not been adequately trained or supervised in performing their functions, and (3) internal audit coverage of financial activities has been inadequate.

Our findings relate to financial management problems of EEOC and not to the agency's programs or overall objectives. The findings are discussed in more detail in appendix I and are based on work completed through October 9, 1981. Some of these are not fully developed because of the short time frame specified for release of this interim report. Because we plan to issue a final report at the conclusion of our review, we are making no recommendations for corrective action at this time.

Because of its interim nature, we have not obtained formal comments on this report from the agency. However, key agency officials, including the acting Chairman, have been briefed on the deficiencies we are reporting on. As arranged with your office, we plan no further distribution of this report, unless you publicly announce its contents, until 30 days from its date. At that time we will send a copy to EEOC and other interested parties.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

INTERIM REPORT ON FINANCIAL MANAGEMENT PROBLEMS AT THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

INTRODUCTION

In 1976 GAO reported 1/ that the failure of the Equal Employment Opportunity Commission (EEOC) to properly maintain its accounting system resulted in an overobligation of its 1974 annual appropriation. Even though the agency began action to correct the problems we reported, the Senate Committee on Labor and Human Resources recently received allegations that problems similar to those previously reported by us still exist. As a result, the committee chairman asked us to perform another review of EEOC's accounting system and related financial areas. The committee asked that emphasis be placed on reviewing fund controls to determine the extent of deficiencies.

EEOC acquired its current accounting system in 1978 from a private contractor. The system was intended to be a centralized, integrated accounting system operated in Washington, D.C. EEOC uses the computer facilities of the Food and Drug Administration in Rockville, Maryland, to process transactions prepared by the system personnel. EEOC employees, however, are paid by the Manpower and Payroll Statistics (MAPS) system operated by the General Services Administration in Kansas City. The MAPS system interfaces with the EEOC system by providing the data needed for recording payroll transactions.

OBJECTIVES, SCOPE, AND METHODOLOGY

We are reviewing EEOC's accounting system to determine if the system is being operated as designed and in accordance with sound accounting methods. Our objectives are to assess the reliability of data produced by the accounting system; evaluate the current system of internal controls; and determine if required accounting procedures, such as periodic validations of unliquidated obligations, are being carried out.

Our review has been performed, to date, at EEOC's Washington, D.C. headquarters and at the Dallas and Atlanta district offices. Other headquarters offices and field offices will be visited as our work continues. The Atlanta and Dallas district offices were visited to enable us to examine accounting records for obligations maintained at the operating budget level.

1/"Violations of The Anti-Deficiency Act And Other Financial Management Problems at The Equal Employment Opportunity Commission," FGMSD-76-12, April 5, 1976.

In our work we have:

--Used an internal control questionnaire to identify a number of control weaknesses requiring management's attention.

--Requested, through the acting Chairman, that each office with a budget reconcile obligation balances on its records to the balances reported by the centralized accounting system for fiscal 1980 and 1981.

--Examined error reports generated by the accounting system showing transactions not reflected in periodic reports and fund balances.

--Interviewed agency officials to determine current practices under which accounting operations are performed.

--Examined a sample of travel advances to 78 individuals to determine if receivables are accurately reported and if adequate actions are being taken to collect balances due.

Since this report is based on work still in process, we are unable as yet to estimate the extent of the problems caused by the weaknesses noted. We are also not able to project the results of our review of travel advances since the advances were not randomly selected.

ACCOUNTING RECORDS ARE UNRELIABLE FOR MANAGEMENT PURPOSES

Accounting records usually provide the basis for the many management decisions that must be made in carrying out authorized programs and functions. In Federal agencies such as EEOC the records should also serve as the basis for reporting on performance and fund utilization. The EEOC centralized accounting records, however, are unreliable for use by management because some transactions have not been recorded promptly, rejected transactions have not been corrected, and unliquidated obligations have not been validated.

Transactions are not recorded promptly or correctly

Transactions affecting EEOC's fund status must be recorded promptly if its accounting records are to provide accurate and complete information on fund status. At EEOC many transactions have not been recorded promptly and sometimes the transactions have not been recorded against the correct fiscal year appropriation.

For example, we noted that EEOC was still recording obligations against its 1980 appropriation in June 1981 and had charged some of its fiscal 1980 travel costs against the 1981 appropriation. We have not yet established the extent of this problem, but

it is a recognized deficiency within the agency. EEOC's financial managers, in commenting on the transaction listings for 1980 obligations recorded after yearend, told the acting EEOC Chairman on August 20, 1981:

> "The review of the document revealed an alarming amount of activity (both number of obligations and dollar value of these obligations) after the close of FY 1980 as well as little deobligation activity."

In addition, budget allowance holders reported almost $2 million in 1981 obligations that were not recorded in the centralized accounting system as of May 31, 1981. Even though some of this discrepancy is apparently due to acceptable timing differences, some obligations or deobligations of 1980 funds were also reported as not being recorded on the central system. More work is needed to determine the extent and reason for these discrepancies.

Rejected transactions are not processed promptly

A mechanized accounting system such as the one operated by EEOC includes automated edits to check on the accuracy and completeness of accounting transactions to be recorded. At EEOC, the number of rejected transactions grew at an alarming rate in fiscal 1981 and until the last month of the fiscal year little effort was made to process the rejected transactions, valued at over $9 million.

EEOC's computer edits are designed to prevent incorrect data from entering the system and to help prevent spending in excess of budget authority. For example, the system will not accept an obligation that exceeds the balance of an organization's budget nor will it generate a payment if the payment amount exceeds the amount obligated.

The rejected transactions were recorded in an error file which consisted of 360 rejected transactions, valued at about $2.8 million, at the time the fiscal 1980 yearend reports were prepared on November 12, 1980. In approximately 8 months ending July 16, 1981, the error file had grown to 4,130 rejected transactions, estimated to total over $9.6 million.

The growth of the error file was caused partly by a shift in document coding responsibilities to the field offices. On October 1, 1979, after receiving only 1 day of training on coding procedures, the field offices assumed this responsibility for documents they originated. The shift in responsibility has affected the timeliness and accuracy of the coding sheets being sent to headquarters for processing. On many occasions, attempts to pay vendors have been rejected by the computer because the coding for obligation documents was not received from the field. Without coding the computer cannot match payments with obligations.

Another problem has been the inaccuracy of coding sheets produced under headquarters' responsibility. Some employees have had extremely high error rates coupled with very low productivity levels. During one period, for instance, 60 percent of one employee's work was below satisfactory for the related job classification and grade level.

Also contributing to the growth of the error file is the fact that no cleanup cycle currently exists. In the past, time was allowed for correction of transaction errors before periodic reports were produced. Now the reports are generated even though unrecorded transactions exist. The unrecorded transactions, therefore, are not reflected in the reports. When the transaction errors are finally corrected, they are not always adjusted to the proper period, and reports remain inaccurate.

The agency has not placed enough emphasis on efforts to correct the rejected transactions. This important function was transferred from the accounting branch in 1980, along with the person assigned to it. The function was then transferred back to the accounting branch in January 1981, but no one has been assigned to do it. Little action was taken to correct errors until September 1981, when the accounting branch attempted to resolve as many errors as possible by the fiscal yearend. As of October 2, 1981, errors were reduced to 2,807, involving an estimated $7.7 million.

Improper adjustment was made at yearend

EEOC officials have recognized that because of the large number of rejected transactions not processed, and other problems with the centralized accounting records, the reports generated automatically by the computer are inadequate for external reporting and other management purposes. In closing records for fiscal 1980, they made about $2.8 million in adjustments in attempts to correct records. We found several of those adjustments to be unsupported or otherwise improper.

EEOC officials made the adjustments to compensate for rejected transactions that had not been processed by November 1980, when the fiscal 1980 appropriation records were closed. Using the worksheets the officials prepared, we have established that some improper adjustments were made that contributed to inaccuracies in amounts being reported. For example, adjustments were made for some errors that had been corrected and posted to the records before the close of the fiscal year, resulting in a double counting of amounts for those transactions. We are continuing to look into this problem and its effects on balances reported for 1980. We will also review adjustments to fiscal 1981 external reports, since the dollar value of the unresolved errors may require greater adjustments to the system-generated balances than were made last year.

ACTIONS NEGATED FUND CONTROL FEATURES OF ACCOUNTING SYSTEM

Each year EEOC has received an annual appropriation specifying the amount of obligations that can be incurred within the fiscal year. Its accounting system contains procedures to control actual obligations within authorized amounts. However, these procedures are not being followed--especially the reconciliations to ensure accurate and prompt recording of obligations and periodic reviews to establish their validity.

Obligation balances are not properly reconciled

After receiving its annual appropriation, EEOC issues obligation authority to its offices in the form of a budget allowance. Its procedures provide for the offices to maintain records of their obligations for the purpose of reconciling them with the central accounting records. We have established that the reconciliations have been performed either improperly or not at all by some offices.

Allowance holders should maintain fund control records to show the amounts of obligations they have incurred by document, such as a purchase order or contract, which will ultimately require an outlay of funds. Each document should be assigned a control number and recorded on both local records and coding sheets sent to Washington for entry into the central accounting system. The reconciliation of amounts in allowance holder records with those in the central system is essential; it provides assurance that all obligations are received in Washington, properly entered into the centralized accounting system, and charged to the correct budget allowance.

We noted that some EEOC offices have not submitted the required reconciliations. Often when the reconciliations have been submitted, the differences noted on them have apparently not been resolved by central accounting. Therefore, we had EEOC's acting Chairman ask all budget allowance holders to provide us with current reconciliations documenting any difference between their records and the obligation amounts for fiscal 1980 and 1981 as shown in the central accounting system.

These reconciliations showed significant differences between amounts recorded in individual records and in the central accounting system. For example, the reconciliations we received for 1981 funds showed almost $2 million in obligations that were not in the central records. Some obligations of 1980 funds were not recorded in the central records as late as May 31, 1981. Also, the reconciliations demonstrated a lack of understanding of the process and even disclosed instances where balances were forced into agreement.

We visited EEOC's Dallas and Atlanta district offices and checked on their reconciliation efforts. Our check disclosed that:

--The Atlanta office maintained adequate records in more detail than is required by EEOC's written procedures. This office was generally performing monthly reconciliations correctly, but we noted that central accounting personnel had not resolved reported differences. As a result, the Atlanta office had to repeat information on individual items month after month.

--The Dallas office had a number of significant deficiencies in its records; sometimes obligations were not recorded or were recorded twice. Also, the office had not correctly reconciled its obligation balances with those recorded in the central system. Although it reported that obligations were in balance, we noted the wrong figure was used in arriving at this position.

We are currently reviewing reconciliations received from other offices to determine whether obligations they reported as unrecorded are valid and should be recorded in the central accounting records. In addition, we plan to visit other offices to check on the accuracy of the reconciliations they submitted to us.

Unliquidated obligations are not validated

At the end of fiscal 1980 EEOC reported $27.2 million in unliquidated obligations. This amount was reported without qualification even though periodic reviews have not been performed since 1978 to establish validity.

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 17.3) instructs agencies to review their obligations periodically and at least at fiscal yearend to comply with the law (31 U.S.C. 703(a)). The latter reviews are to determine whether all obligations reported on yearend closing statements are valid and supported by documentary evidence. Section 1311 of the Supplemental Appropriation Act (31 U.S.C. 200) sets the criteria for obligations that can be considered valid and recorded. Essentially, the act provides that no amount shall be recorded unless it is supported by documentary evidence of a binding agreement in writing between the parties thereto.

During our review we noted that EEOC had not attempted to validate its obligations since fiscal 1978. We also noted one apparently invalid obligation that had been recorded at the end of fiscal 1980. The obligation, valued at $1.2 million, was purported to cover reimbursements to the General Services Administration and other expenses such as postage. However, the obligation was not supported by documentary evidence. A portion of the amount was deobligated in July 1981.

EEOC internal auditors also reported in a September 21, 1981, report that many obligations charged to 1980 funds earmarked for State and local contracts were apparently invalid. Eighteen posting

errors were found that resulted in an overstatement of obligations by over $55,000. In addition, duplicate obligations were found for travel expenses. These types of errors create serious doubt about the accuracy of system-generated fund balances. A considerable effort is needed to validate unliquidated obligations.

PRACTICES ARE ADVERSELY AFFECTING BILL PAYMENT AND DEBT COLLECTION

As we discuss below, EEOC has been extremely deficient in its efforts to process vouchers to pay bills and to control amounts it should collect from others, including EEOC employees.

Efforts to properly pay bills have been inadequate

Because of inadequate documentation and other problems related to processing its payment vouchers, EEOC has been frequently late in paying its bills and therefore unable to take advantage of discounts offered. Also, some bills have apparently been paid without required checks being made to establish that the payments are proper.

GAO's Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 24.2) states that vouchers to pay bills should be preaudited to check and verify the accuracy of the data, including amounts shown. The preaudits should also establish whether the payment would duplicate another, whether it has been properly authorized, and whether it is a legal payment being made for goods and services received in accordance with the terms of the agreement.

We noted that EEOC had not formalized procedures for preauditing vouchers and was following procedures developed by a fiscal specialist. These unapproved procedures generally appear to contain adequate guidance for voucher examiners. However, many vouchers were being submitted for processing that did not contain evidence of (1) an obligation being recorded for amounts of the voucher, (2) a vendor's request for payment, or (3) actual delivery of the goods and services.

In the absence of adequate documentation, some payments were excessively delayed. Others were delayed because of improperly prepared vouchers which could not be processed. Also, staffing shortages apparently contributed to delays in processing vouchers for payment. For example, no typist was available for about a month to process vouchers valued at more than $1.4 million.

EEOC should schedule its bill payments to coincide with due dates in order to take advantage of discounts and to keep the Government from incurring unnecessary interest costs. We found examples of invoices that were paid without taking advantage of

discounts offered by vendors for paying within the specified time. However, we have been unable to establish the total amounts lost in this way because records do not show discounts not taken.

Because of its recognized backlog in unpaid vouchers, EEOC established a special task force in 1980 to process vouchers for payment certification. We were told the task force submitted vouchers for certification without checking for prior payment and allegedly worked with voucher packages that were not always complete; sometimes they lacked evidence of delivery or other data essential for certification. We plan to look at the task force's work and will attempt to establish whether any improper payments resulted.

Travel advances are not settled or collected for long periods

The nature of EEOC's work requires many of its employees, consultants, and contract employees to travel frequently. When traveling on official EEOC business, such employees are authorized advance payments for estimated travel costs. As of May 1981, EEOC reported over $1 million in travel advances outstanding. Even though most of this amount had been outstanding for more than 6 months, we found actions were not being taken to collect or settle the advances.

In reviewing outstanding travel advances to 78 individuals, we found that the agency had made little or no effort to have travel vouchers filed or advances repaid. As an example, one employee had over $2,570 in travel advances outstanding for more than 6 months. Another EEOC employee had over $1,200 outstanding, most of which was owed since 1979 or earlier. The agency has not taken aggressive action to clear up these advances as specified in EEOC's travel regulations. The regulations provide that travel advances for specific trips are to be returned promptly if travel is canceled, or travel vouchers are to be submitted within 5 working days if trips are completed. The regulations also provide specific instructions for settling blanket/annual travel advances for those employees who are required to travel frequently or continuously in their performance of official Government functions. These advances should be settled by filing vouchers every 30 days, a procedure that helps to identify individuals with excessive advances. Many EEOC employees apparently do not comply with these procedures and inadequate emphasis is placed on forcing compliance. Demand letters should be sent at 30-day intervals with warnings that outstanding amounts would be offset against employees' pay.

Our sample also disclosed problems with the amount of advances reported as outstanding on EEOC's central records. As an example, EEOC has failed to either process and record travel vouchers in the accounting system or correct transactions that are rejected by computer edits. Also, we have noted conditions that could understate the amounts of outstanding advances to employees.

We also noted that some district offices signed forms for separating employees apparently without checking with the finance office to see whether the employees had outstanding travel advances. As a result, 5 of the employees in our sample left the agency without settling outstanding advances. We are still looking into this problem.

Debt collection procedures are not followed

Besides outstanding travel advances, other debts are owed to EEOC for which collection action should be taken. As an example, other Federal agencies still owe payment to EEOC for its settlement of discrimination complaints. The receivables from these debts have not been handled in accordance with recognized practices. Aggressive action is not being taken to collect them.

A first step in determining and controlling delinquent receivables is through accounts receivable aging schedules. These schedules categorize accounts receivable in chronological order by due date and are useful for identifying problem accounts requiring management's attention. Despite the widely recognized value of aging schedules, we noted that EEOC has not used them to initiate collection action.

As specified in the Joint Standards of the Federal Claims Collection Act of 1966 (4 C.F.R. 101-105), the heads of Federal agencies or their designees should take prompt and aggressive action to collect accounts receivable due the Government. The standards further require that (1) three written demands be made at 30-day intervals, (2) collections be made by offset where feasible, (3) debtors be personally interviewed, (4) the possibility of compromise be explored, and (5) other persistent actions to achieve collection be attempted. We found no evidence that these actions are being taken.

INTERNAL CONTROL WEAKNESSES ARE CONTRIBUTING TO ACCOUNTING AND OTHER MANAGEMENT PROBLEMS

As required by a longstanding law, 1/ EEOC should establish and maintain a system of internal controls to safeguard assets and to ensure that funds are spent in accordance with congressional authorizations. Its accounting system design includes the procedures for doing this; however, the internal controls to ensure compliance with the procedures are not being properly used.

Duties are not properly separated

As specified in GAO's Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 11.2), a basic principle of internal

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1/Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a).

control is dividing critical functions between two or more persons, a technique referred to as separation of duties. Experience has shown that a fraudulent act is less likely to be successful if it requires two or more individuals. Nevertheless, at EEOC we noted cases where duties were assigned in disregard of this basic principle of internal control. Examples of these conditions follow:

--Cash and checks are received by the certifying officers, who also make deposits in the agency's account. Moreover, a specific person has not been designated as the collection agent and monetary investments (checks and cash) are not recorded when received.

--The supervisory accountant within the finance department who has responsibility for maintaining the general ledger and system input has been designated as a certifying officer; thus this person has control over the amounts recorded in accounting records and certified to the Treasury for disbursement.

--Transactions have apparently been recorded in the accounting records by other than accounting personnel. This bypasses input controls that provide for separation of duties.

<u>Personnel are not properly supervised or trained</u>

Any accounting system can break down if operating personnel are not properly supervised and adequately trained. We noted problems in both these areas at EEOC.

As an example, key positions in the finance and budget branches have not been filled and recently two top management positions in the agency also became vacant. It is recognized that the absence of adequate supervision can promote work errors, exceptional backlogs and bottlenecks, and instances of procedures not being followed. Such conditions are prevalent in the finance and budget branches of EEOC.

Another major problem is a lack of qualified personnel to perform required functions, such as coding obligation transactions for entry to the accounting system. In some cases, no personnel have been available to perform this essential function. To illustrate, in the Dallas district office, the position with responsibility for coding the obligations and maintaining local obligation records was vacant for about 5 months. During that time the accounting functions were performed, as time allowed, by other personnel.

In GAO's Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 8.8) we caution agencies that competent leadership and a capable staff are required to maintain a satisfactory accounting system. Without properly trained and supervised staffs, the best accounting systems will not operate properly.

Internal audit coverage is inadequate

Although EEOC has established an internal audit organization, we noted that the office was staffed with only two auditors for an extended period and now has only four. This is an insufficient number for adequate coverage of EEOC activities.

In our view, an adequate program of periodic internal audit coverage could have detected most of the control deficiencies we have discussed and would have provided EEOC management with the opportunity to initiate timely corrective actions. Internal audits have long been recognized as a vital part of an agency's system of internal financial controls. In fact, under section 113 of the Accounting and Auditing Act of 1950, agency heads are required to establish accounting and internal financial controls, including internal audit (emphasis added).

The inadequacy of the internal audit staff is illustrated by the backlog of contract audits. The office has requests from EEOC management to audit 400 contracts. Final payments on some of these were made 6 years ago.

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